

## Message Text

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TO AMEMBASSY REYKJAVIK  
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COMICEDEFOR KEFLAVIK ICELAND

C O N F I D E N T I A L STATE 208915

E.O. 11652: GDS

TAGS: MARR, IC

SUBJECT: LEGAL ISSUES AFFECTING US PROCUREMENT OF POL AT  
KEFLAVIK, ICELAND

1. SUMMARY: DOD IS ENCOUNTERING PROBLEMS WITH ICELANDIC  
CONTRACTOR OLLUFELAGID H.F. (OHF ESSO) WHICH HAS BEEN,  
AS YOU KNOW, THE SOLE SOURCE SUPPLIER FOR CERTAIN POL SER-  
VICES AT KEFLAVIK BASE. IN THE PAST THE DEFENSE LOGISTICS  
AGENCY WHICH MAKES CONTRACTS WITH OHF HAS BEEN ABLE TO  
OBTAIN WAIVERS OF CERTAIN STANDARD CONTRACT CLAUSES FROM  
DOD AND THE GENERAL ACCOUNTING OFFICE PRIOR TO SIGNING  
CONTRACTS WITH OHF. IT IS BECOMING INCREASINGLY DIFFICULT  
TO OBTAIN SUCH WAIVERS, AND THE GAO HAS SUGGESTED THAT THE  
DEFENSE LOGISTICS AGENCY SEEK THE ASSISTANCE OF THE GOI IN  
ATTEMPTING TO INDUCE OHF TO SIGN A CONTRACT WITH THESE  
STANDARD CLAUSES. ACTION REQUESTED: THAT THE EMBASSY DIS-  
CUSS THIS SITUATION WITH KEFLAVIK BASE OFFICIALS AND GIVE  
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US ITS VIEWS ON WHETHER AN APPROACH TO THE GOI WOULD HELP  
RESOLVE THESE DIFFICULTIES. END SUMMARY.

2. PROBLEMS OVER FUEL SERVICES FOR THE NAVAL STATION AT  
KEFLAVIK HAVE ARISEN AGAIN. US LAW REQUIRES THAT ALL CON-  
TRACTS HAVE CERTAIN CLAUSES INCLUDING ONE PERMITTING AN  
EXAMINATION OF RECORDS BY THE COMPTROLLER GENERAL

(ASPR 7-104.15) AND ONE WHICH PERMITS AN AUDIT BY THE DEPARTMENT OF DEFENSE (ASPR 7-104.41(A)). ADDITIONALLY, FOR THIS PARTICULAR PROCUREMENT, THERE ARE REQUIREMENTS TO OBTAIN AND AUDIT COST OR PRICING DATA.

3. THE ICELAND CONTRACTOR OLIUFELAGID H.F. (OHF) (ESSO) HAS BEEN THE SOLE SOURCE FOR CERTAIN POL SERVICES. OHF HAS REFUSED TO INCLUDE THE TWO REQUIRED CLAUSES IN THE CONTRACT OR TO PROVIDE ACCEPTABLE COST OR PRICING DATA AND PERMIT THE REQUIRED AUDIT. IN THE PAST, THE DEFENSE LOGISTICS AGENCY (DLA) HAS BEEN ABLE WITH DIFFICULTY TO OBTAIN WAIVERS OF THESE CLAUSES FROM THE GENERAL ACCOUNTING OFFICE (GAO) AND THE DEPARTMENT OF DEFENSE BY STRESSING THE FACT THAT OHF WAS THE ONLY POSSIBLE SUPPLIER. GAO CRITICISM OF PAST WAIVERS MAKES IT INCREASINGLY DIFFICULT TO OBTAIN THEM. LAST YEAR THE COMPTROLLER GENERAL OF THE U.S. RECOMMENDED THAT THE DLA, BEFORE ENTERING INTO ANY FUTURE CONTRACT, ENLIST THE AID OF THE GOVERNMENT OF ICELAND IN ORDER TO TRY TO RESOLVE THE PROBLEM.

4. A POSSIBLE SOLUTION WOULD BE TO ALLOW OTHER COMPANIES (HOPEFULLY WITH MORE OPEN AND AGREEABLE POLICIES) TO COMPETE FOR THE CONTRACT. ONE COMPANY, OLIUVERSLUM ISLANDS H.F., AN AGENT OF BRITISH PETROLEUM TRADING LIMITED (BP), HAS EXPRESSED, WE UNDERSTAND, AN INTEREST IN DOING SO ON TWO OCCASIONS. BP, HOWEVER, CLAIMS THAT IT HAS NOT BEEN CONFIDENTIAL

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ABLE TO OBTAIN THE LICENSES NECESSARY TO CONSTRUCT THE NEEDED FACILITIES AT KEFLAVIK. THE DLA SENT A SOLICITATION NOTICE FOR THE PERIOD 1 DECEMBER 1978 THROUGH 30 NOVEMBER 1979, TO THREE ICELANDIC COMPANIES ON 14 JULY 1978, BUT ANTICIPATES THAT ONLY ONE, OHF, WILL MAKE AN OFFER. IN SHORT, OHF STILL APPEARS TO BE THE ONLY ICELANDIC FIRM WHICH CAN PROVIDE THESE SERVICES.

5. A LIST OF OTHER PROBLEMS AND DIFFICULTIES DLA HAS HAD WITH OHF IS OUTLINED BELOW.

A. GOVERNMENT-FURNISHED PROPERTY IS NOT MAINTAINED AND REPAIRED IN ACCORDANCE WITH CONTRACTUAL STANDARDS. SALARIES OF MECHANICS AND MAINTENANCE PERSONNEL ARE CHARGED 100 PERCENT TO THIS CONTRACT WHILE THEY PRIMARILY MAINTAIN FACILITIES AND EQUIPMENT USED IN THE CONTRACTOR'S COMMERCIAL OPERATION.

B. SALARIES FOR 12 AIRCRAFT REFUELING OPERATORS WERE CHARGED 100 PERCENT TO THIS CONTRACT ALTHOUGH THE ACTUAL PERFORMANCE RATIO IS 71 PERCENT TO OUR CONTRACT, 29 PERCENT TO COMMERCIAL OPERATION. ALSO, 75 PERCENT OF THE BASE

MANAGER'S SALARY WAS CHARGED TO OUR CONTRACT.

C. OHF BASES THEIR OFFER FOR AIRCRAFT REFUELING AND SOME TRANSPORTATION ITEMS ON A MUCH LOWER QUANTITY THAN ESTIMATED, RESULTING IN A HIGHER UNIT PRICE. ALSO, THE CONTRACTOR REFUSES TO OFFER AIRCRAFT REFUELING SERVICES ON A TRUCK MOVEMENT BASIS AS SOLICITED. INSTEAD, IT OFFERS ON A PER GALLON BASIS. THIS NOT ONLY RESULTS IN HIGHER PRICES, BUT ALSO IS CONTRARY TO ESTABLISHED DOD PRACTICES FOR THE MANAGEMENT OF US NAVY REFUELING OPERATIONS.

D. HARBOR DUTIES AND TAX ON TURNOVER ARE INCLUDED IN THE CONTRACT PRICE. BECAUSE SERVICES PROVIDED ARE FOR THE ULTIMATE DEFENSE OF ICELAND, LEGAL COUNSEL FOR ICELAND  
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DEFENSE FORCE HAS GONE BEFORE THE JOINT DEFENSE COUNSEL AND REQUESTED RELIEF. IT WAS DENIED; HOWEVER, APPEAL OF THIS DECISION IS PENDING. OHF ALSO INSISTS THAT THE HARBOR DUTIES BE ADDED INTO THE CONTRACT PRICE BEFORE APPLICATION OF ITS 12 PERCENT PROFIT AND THE TAX ON TURNOVER; THUS, SUBJECTING THE US GOVERNMENT TO PAYMENT OF PROFIT ON HARBOR DUTIES AND TO PAYMENT OF A TAX ON THE HARBOR DUTIES.

E. OHF REFUSES TO ACCEPT DFSCM 4140.3, OPERATION AND MAINTENANCE MANUAL FOR GOVERNMENT-OWNED CONTRACTOR-OPERATED TERMINALS.

F. ALTHOUGH OHF'S RECORDS PRODUCED DURING NEGOTIATIONS SHOW BARGE OFF-LOADING AVERAGES 9-1/2 HOURS, OHF CHARGES 12 HOURS FOR EACH DELIVERY, AND INCLUDES A 40 PERCENT CONTINGENCY FOR OVERTIME IN EACH LABOR HOUR FOR TRANSPORTATION OF PRODUCT TO KEFLAVIK.

G. IF ICELAND'S FISHING FLEET HAS A GOOD SEASON, CONTRACTUAL OBLIGATIONS ARE DISREGARDED WHILE THE FISHING FLEET IS SERVICED. MINIMUM LEVELS FOR PREPOSITIONED WAR RESERVES WERE NOT MAINTAINED FOR THIS REASON DURING THE WINTER OF 1976-1977. THE CONTRACTOR, IN THE LAST NEGOTIATION, STATED HE WOULD DO THE SAME THING IN LIKE CIRCUMSTANCES.

H. ON SEVERAL ITEMS, BOTH GENERAL AND ADMINISTRATIVE COSTS AND OFFICE COSTS AT REYKJAVIK WERE CHARGED WHILE NEITHER COST WAS SUPPORTED BY THE CONTRACTOR.

I. SUBMISSION OF OFFERS IS IN TERMS OF DOLLARS RATHER THAN KRONURS, AS REQUESTED.

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J. DEPRECIATION ON SOME ITEMS WAS ADMITTEDLY INCORRECTLY CALCULATED; BUT THIS WAS NOT CORRECTED IN THE REVISED OFFER.

K. THERE HAVE BEEN REPEATED INCIDENCES OF CONTAMINATION OF US GOVERNMENT-OWNED FUEL BY FISH OIL RESIDUE REMAINING IN THE BARGES USED TO TRANSPORT THE FUEL.

L. CONTRACT PRICES SINCE 1975 HAVE, IN SOME CASES, DOUBLED AND TRIPLED WITHOUT ANY CORRESPONDING INCREASES IN SERVICES. THE CONTRACTOR HAS SUBMITTED INADEQUATE CERTIFIED COSTS OR PROTECTING DATA THE PAST TWO YEARS, AND DOES NOT PERMIT AN AUDIT OF THE ACCOUNTING RECORDS INVOLVED. THERE ARE OBVIOUS UNEXPLAINED COSTS CHARGED TO OUR CONTRACT.

6. THE YEARLY COST OF THIS CONTRACT IS ABOUT 4 MILLION DOLLARS.

7. OUR PRIMARY CONCERN IS TO ASSURE RETENTION OF THE KEFLAVIK BASE. HOWEVER, IN VIEW OF THE PROBLEMS ENCOUNTERED BY DLA WE WOULD APPRECIATE YOUR DISCUSSING THE CONTRACT WITH KEFLAVIK BASE OFFICIALS AND RECEIVING YOUR VIEWS ON WHETHER AN APPROACH TO THE GOI MIGHT BE HELPFUL IN RESOLVING SOME OF THESE PROBLEMS.

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## Message Attributes

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